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Contributions of Multiculturalism to the Competitive Advantage of an Organisation. (Commentary).

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Full Article

Abstract

Multiculturalism is becoming a norm in the global companies. It brings some difficulties but the results demonstrated that cultural diversity does in fact add value and, within the proper context, contributes to firm competitive advantage.

It is argued that diverse groups make better decisions. Another example is that a diverse workforce enhances creativity and understanding of customers. In some industries, tight markets make it important to find the best workers and then utilise them to do the best in the organisation. These best workers have very diverse backgrounds, which should not be a limiting factor in a recruitment process.

Some countries are politically very sensitive to discrimination issues, thus making it beneficial for companies to ensure diverse workforce. This also fosters the level of trust inside of the company.

Maybe the greatest benefit comes from the understanding of the diverse markets. Gays, Indians, Hindus, and males all have their distinctive ways of thinking, which can be leveraged if the employee base is diverse enough.

According to the resource-based theory, a firm's growth and competitive advantage are functions of the unique bundle of resources that it possesses and deploys (Carpenter, Sanders & Gregersen, 2001).

Very often competitive advantages are listed as human resources, processes, products, financial means, knowledge, and the list continues. Multiculturalism has been seen to be more and more advantageous, especially if it is understood as diversity. We'll approach this by looking into definition of diversity and then analysing different elements where diversity has impact, either positive or negative. Before we launch ourselves in the benefits of diversity, we'll balance it by looking into some of its

negative impacts.

Multicultural corporate climate brings about diversity. This is especially important to global teams for two main reasons. First, cultural differences provide the greatest potential to hinder effective interaction within teams. Culture is a society's or defined group's assumptions and norms for how people interact with each other and approach what they do. Each society develops a different set of assumptions and

norms under which to operate, and different professions, functions, and even genders within a society or organisation can have different cultures themselves.

Team members from different cultures therefore come to the group setting with very different predefined notions about how a group should approach a given task. Furthermore, cultural values and norms are deeply held, and almost always implicit and taken for granted. Their deepest effects on behavior and interaction are usually hidden, and extremely difficult to identify and address. Cultural differences inevitably hinder smooth interaction (DiStefano & Maznevski, 2000).

Advantages

There are also multiple advantages in diversity. As a starting point, we'll examine what Orlando (2000) found in his study where the relationships among cultural (racial) diversity, business strategy, and firm performance in the banking industry were examined. Racial diversity interacted with business strategy in determining firm performance measured in three different ways, as productivity, return on equity, and market performance. The results demonstrated that cultural diversity does in fact add value and, within the proper context, contributes to firm competitive advantage.

Diverse workforce is also not about political mandates or political correctness. Rather, it is about unlocking the potential for excellence among all workers by providing them with the tools, resources and opportunities they need to succeed (Crockett, 1999). Crockett continues by mentioning that in general terms if companies are to be successful in an ever-changing environment, they also must view diversity as a business strategy that will distinguish them from the competition.

Decision-making

Bell Atlantic's CEO Ivan Seidenberg leads with the argument that diverse groups make better decisions. With telecommunications going through epic changes in technology and competition, he thinks what Bell Atlantic needs most is "more diversity of thinking. If everybody in the room is the same, you'll have a lot fewer arguments and a lot worse answers.

The same logic is advanced by Lucent's CEO McGinn: "Diversity is a competitive advantage. Different people approach similar problems in different ways" (Colvin, 1999).

Innovation

If creativity springs from divergence, then a great source of ideas is in the multicultural world. The interconnected world gives opportunities to link cultures. Sergio Zyman has said that Coke's strength is that "we have a lot of accents now" (Kao, 1996).

Zyman is not alone. Mike Armstrong, the CEO of AT&T, shares his ideas and opinions. He says: "A diverse workforce enhances our creativity and understanding of customers," (Moorhead & Griffin, 2001).

Goleman (1993) summarises this view by mentioning that international companies have an increasing need for employees who not only put any bias aside to appreciate people from diverse cultures and markets but also turn that appreciation into competitive advantage. There is also a potential fruit of diversity, in terms of heightened collective creativity and entrepreneurial energy.

Benefits of multiculturalism must have a financial impact. Moorhead and Griffin (2001) observe that companies are using diverse work groups through various diversity initiatives, roundtables, etc, to reach new employees that make a difference to the bottom line.

Human Resources

Even if the world is heading towards a recession, in some industries tight markets make it still important to find the best workers and then utilise them to do the best in the organisation (Moorhead & Griffin, 2001).

One example is Thailand, where there is a shortage of skilled and unskilled workers because of rapid industrialisation (Moorhead & Griffin, 2001). Without a multicultural and diverse workforce, economic growth cannot continue.

The same is true in Singapore, where about 500,000 non-Singaporean and culturally diverse people are doing unskilled work. This contributes heavily to the economic development of Singapore.

Not all of the benefits are coming immediately from the workplace. Says Weldon I. Atham, a high-

Retention of the benefits are coming immediately from the workplace. Edge Watson Ezzam, a high-powered Washington attorney who counsels several Fortune 500 CEOs on diversity matters: "If you sell to Washington, lots of government leaders are African-American or Hispanic, and they're very sensitive to these issues," (Colvin, 1999). Without political backing, many corporate initiatives will not be lifted off the ground.

Among others, Peter Senge (1999) views diversity as an asset. For example, in meetings participants have different views, skills, and learning styles. Some are enthusiastic while others will be sceptical. If both views are heard, people sense that they are recognised. Then they will trust their leadership and one another. Trust will form basis for teamwork and greater performance.

A different viewpoint is coming in a context of globalisation. Mergers and acquisitions over global dimensions go through a period of consolidation to reduce duplication of efforts. This means that employees from around the world are put together in new teams resulting even more diverse groups. This process needs diversity to succeed (Moorhead & Griffin, 2001).

Not all benefits of diversity are coming from volunteerism. On the contrary, if diversity is not used, consequences can be devastating in the form of the threat of loss. CEOs don't like talking about this answer to the why question -- it isn't the message they want to send -- but the effect is strong and undeniable. Colvin (1999) reminds us about CEOs who watched the horror stories and in some cases have been part of them. A number of companies in the Fortune 500 had religion at gunpoint.

Market

Globalisation opens new diverse markets to companies. Grabbing these opportunities needs a diverse approach. Moorhead and Griffin (2001) point out that companies are focusing on the growing buying power of minority markets. A diverse marketing team that represents the target group is needed. Global markets need diverse thinking to reach customers in different cultures.

For example, in AT&T, Business Resource Groups (BRG) are active for native Americans, gays, lesbians, and people with disabilities. They have developed specific services for diverse customer groups (Moorhead & Griffin, 2001).

Union Bank of California's highly diverse work force (54 per cent minorities) also helps on the frontlines. "Walk into a branch in a Latino area, and you'll see lots of personnel who are Latino," says vice chairman Rick Hartnack. Adds George Ramirez, a senior vice president: "We do awareness studies. We ask customers. The answer is yes, it [diversity] makes a difference," (Colvin, 1999).

In addition, diversity is about ensuring that the overall workforce encompasses the same experiences, backgrounds, and sensitivities as the markets it serves and the communities in which it operates. Externally, we believe a diverse workforce fosters brand loyalty and therefore results in greater customer growth and retention. Internally, our diversity initiative is about achieving superior results through a creative, knowledgeable workforce (Crockett, 1999).

In an article of HR Focus (Jul 2001), a survey of 121 respondents from Fortune 1000 companies and companies on Fortune's list of the top 100 companies to work for found the following benefits of diversity.

As we have mentioned, diversity enables the reading of the emerging world -- to open up new possibilities through a deeper understanding of our customers, markets, our world cultures, and ourselves.

An interesting example is given by Rosen and Digh (2001). Cows are key players in New Zealand's economy, accounting for 23 per cent of the nation's gross domestic product. The New Zealand Dairy Board capitalises on that asset, realising that there's no place for all that milk to go but outside of New Zealand. Thus, strengthening diverse, multicultural teams is vital to New Zealand's international success. By staying true to New Zealand principles yet respecting different cultural norms, globally literate leaders of the Dairy Board use conflict to build understanding, creativity, and momentum.

Other General Benefits

Not all of the authors are willing or able to classify only one benefit. For example, Cox and Blake (Noe et al, 2000) list competitive advantages of cultural diversity as follows:

As a conclusion, nobody summarises this better than DiStefano and Maznevski (2000). They write that because of the nature of culture, cultural differences also provide the greatest potential for creating value. Culture affects what we notice, how we construe it, what we decide to do about it, and how we execute our ideas. Multicultural teams then have a gargantuan wealth of material with which to create

execute our ideas. Multicultural teams often, have a gargantuan wealth of material with which to create innovative approaches to complex organisational challenges, and a broad range of operating modes with which to develop new ways of implementing solutions. Today's business cannot flourish without the creative value afforded by high-performing global teams.

DiStefano and Maznevski (2000) continue by mentioning that differences are explicitly recognised and accepted, even nurtured, and their implications are incorporated into every facet of the group's processes. Watching these teams is like watching a top-performing jazz ensemble. The players all recognise the mastery of the others, and understand the potential for synergy arising from their combinations. They develop a constantly shifting dynamic that incorporates innovation into cooperative structures. They claim to have seen these distinctive teams create value by bringing highly successful products to market in record time, achieving quantum leaps in cost savings in a price-competitive industry, inventing new types of alliances with global suppliers and clients, and moving successfully into territory that others have been unable to conquer.

Conclusion

Globalisation, which has been further pushed onwards by the recent G8 meeting in Genoa (Straits Times, 23 July 2001), opens more possibilities for companies. The use of multiculturalism as a competitive advantage can actualise these. As we have discussed, diversity offers benefits like creativity, resistance against lawsuits, political favours, better decisions, and better knowledge of markets.

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Table 1

Discrimination Lawsuits in the United States

Name of company	Listing in Fortune	Year	Suit	Compensation US\$
Advantica	No. 6	1994	Discrimination	\$54 million

Advantica	No 9	1994	Discrimination	\$94 million
Shoney's	No 39	1993	Discrimination	\$134 million
Bell Atlantic	No 28			
AMR	No 23			
Texaco			Discrimination	\$115 million

Name of company	Note
Advantica	Parent of Denny's
Shoney's	
Bell Atlantic	Defendant in current lawsuits
AMR	Defendant in current lawsuits
Texaco	Texaco's market capitalisation dropped by about half a billion dollars in two days on the allegations

Table 2

Benefits of Diversity

Benefit	Per cent of respondents agree
Improves client relations	52
Improves recruitment	77
Improves corporate culture	79
Helps their organisation to keep a competitive advantage	91
Improves corporate culture	83
Improves employee morale	79
Decreases interpersonal conflict among employees	58
Increases creativity	59
Boosts productivity	52

Table 3

Competitive Advantages of Cultural Diversity

Cost argument	As organisations become more diverse, the cost of poor job in integrating workers will increase. Those who handle this well will thus create cost advantages over those who don't.
Resource-acquisition argument	Companies develop reputations on favourability as prospective employers for women and ethnic

minorities. Those with the best reputations for managing diversity will win the competition for the best personnel. As the labour pool shrinks and changes composition, this edge will become increasingly important.

Marketing argument	For multinational organisations, the insight and cultural sensitivity that members with roots in the other countries bring to the marketing effort should improve these efforts in important ways. The same rationale applies to marketing subpopulations within domestic operations.
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Table 3

Competitive Advantages of Cultural Diversity

Creativity argument	Diversity of perspectives and less emphasis on conformity to norms of the past (which characterise the modern approach to management diversity) should improve the level of creativity.
Problem-solving argument	Heterogeneity in decisions and problem-solving groups potentially produces better decisions through a wider range of perspectives and more through critical analysis of issues.
System flexibility argument	An implication of the multicultural model for managing diversity is that the system will become less determinant, less standardised, and therefore more fluid. The increased fluidity should create greater flexibility to react to environmental changes (that is, reactions should be faster and cost less).

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